

North Dakota REV-E-NEWS



Pam Sharp, Director

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OFFICE OF MANAGEMENT AND BUDGET

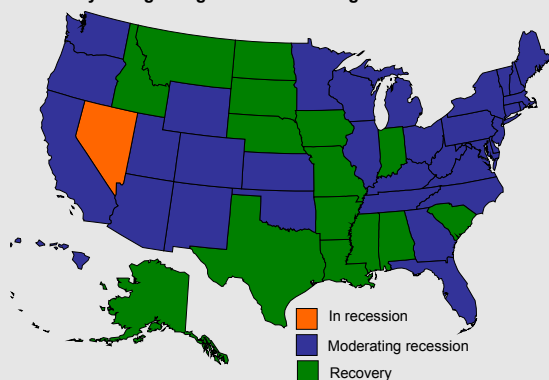
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MESSAGE FROM THE DIRECTOR

Moody's Economy.com, the state's economic forecasting consultant, has determined that as the U.S. economy improves, the central plains region is the first to be considered in recovery. However, they predict continuing difficulty for state and local government budgets in many states.

North Dakota is one of only fifteen states now classified as being in economic recovery. The label of "economic recovery" may seem misplaced for North Dakota where we have remained somewhat insulated from the national recession. However, the classification is a positive sign indicating an outlook for continued growth and economic expansion for our state and the region.

Recovery Is Beginning in the Central Region



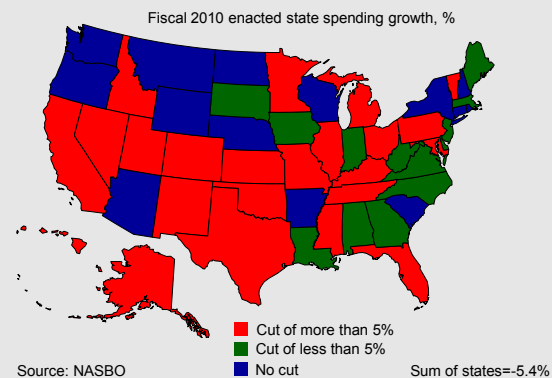
In North Dakota, our unemployment is the lowest in the nation and state revenues continue to exceed the legislative forecast. Bureau of Labor Statistics data for November 2009 shows that while the U.S. average unemployment rate was 10.0 percent, North Dakota had

the lowest rate in the nation at 4.1 percent. Only two other states had rates below 6.0 percent – Nebraska at 4.5 percent and South Dakota at 5.0 percent.

Economy.com predicts that the recovery will leave "most governments with large budget gaps to be filled." On average, Economy.com expects state tax revenues "to fall by 4% this fiscal year, followed by a 5% increase in fiscal 2011." At a time when many states are cutting programs and raising taxes, the 2009 North Dakota legislature enacted, and Governor Hoeven signed into law, individual and corporate income tax relief, property tax relief, and increased funding for education and other programs.

Economy.com reports that in most states, "painful belt tightening measures are now in full swing, including a record amount of spending cuts." North Dakota is among the handful of states with no enacted state spending cuts. Overall, our revenues are tracking closely to the legislative forecast. As of December, general fund revenues exceed the legislative forecast by nearly 4.0 percent.

Regional Pattern of Spending Cuts



OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the price of North Dakota crude is around \$70 per barrel. Production continues to climb and set another new record in November – over 245,000 barrels per day. The current rig count is 80, on the rise and now 10 percent above the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Nov 2009	Oct 2009	Sept 2009
ND sweet crude price per barrel	\$67.06	\$65.52	\$59.26
Production (barrels/day)	245,300	240,100	238,300
Drilling permits	87	86	87
Producing wells	4,637	4,606	4,579
Rig count	63	55	51

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium December 2009

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	38,819,000	42,314,901	3,495,901	9.0%	288,915,000	279,334,275	(9,580,725)	-3.3%
Motor Vehicle Excise Tax	2,699,000	4,350,871	1,651,871	61.2%	18,057,000	26,167,998	8,110,998	44.9%
Individual Income Tax	5,664,000	10,142,210	4,478,210	79.1%	119,357,000	126,084,996	6,727,996	5.6%
Corporate Income Tax	19,180,000	11,450,618	(7,729,382)	-40.3%	35,187,000	27,589,210	(7,597,790)	-21.6%
Insurance Premium Tax	1,500,000	1,599,981	99,981	6.7%	11,785,000	8,838,716	(2,946,284)	-25.0%
Financial Institutions Tax		(46,043)	(46,043)	-100.0%		(984,934)	(984,934)	-100.0%
Oil & Gas Production Tax*	8,322,000		(8,322,000)	-100.0%	30,485,000	32,718,333	2,233,333	7.3%
Oil Extraction Tax*	2,151,000		(2,151,000)	-100.0%	10,002,000	38,281,667	28,279,667	282.7%
Gaming Tax	27,977	8,621	(19,356)	-69.2%	3,668,384	4,073,118	404,734	11.0%
Lottery								
Cigarette & Tobacco Tax	1,889,000	1,810,567	(78,433)	-4.2%	12,045,000	11,757,440	(287,560)	-2.4%
Wholesale Liquor Tax	577,000	578,212	1,212	0.2%	3,401,000	3,789,280	388,280	11.4%
Coal Conversion Tax	1,578,000	2,048,003	470,003	29.8%	8,380,000	9,875,151	1,495,151	17.8%
Mineral Leasing Fees	(800,000)	10,724,610	11,524,610	1440.6%	4,800,000	13,638,450	8,838,450	184.1%
Departmental Collections	2,544,467	1,918,223	(626,244)	-24.6%	12,456,705	12,120,827	(335,878)	-2.7%
Interest Income	1,165,416	876,875	(288,541)	-24.8%	6,557,041	5,381,723	(1,175,318)	-17.9%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers		599	599	100.0%	322,000	535,665	213,665	66.4%
Total Revenues and Transfers	85,316,860	87,778,248	2,461,388	2.9%	860,418,130	894,201,916	33,783,786	3.9%

* Oil and gas production and extraction tax collections totaled \$28.9 million in December. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through December, oil tax collections totaling \$49.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium December 2009

Revenues and Transfers	Fiscal Month				Biennium To Date			
	December 2007	December 2009	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	40,029,058	42,314,901	2,285,843	5.7%	245,849,923	279,334,275	33,484,352	13.6%
Motor Vehicle Excise Tax	4,487,930	4,350,871	(137,059)	-3.1%	31,634,868	26,167,998	(5,466,869)	-17.3%
Individual Income Tax	9,349,919	10,142,210	792,291	8.5%	102,712,156	126,084,996	23,372,840	22.8%
Corporate Income Tax	29,063,956	11,450,618	(17,613,338)	-60.6%	44,843,607	27,589,210	(17,254,398)	-38.5%
Insurance Premium Tax	1,013,821	1,599,981	586,160	57.8%	11,805,943	8,838,716	(2,967,227)	-25.1%
Financial Institutions Tax	576,853	(46,043)	(622,896)	-108.0%	865,081	(984,934)	(1,850,015)	-213.9%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	33,378	8,621	(24,757)	-74.2%	4,376,560	4,073,118	(303,442)	-6.9%
Lottery								
Cigarette & Tobacco Tax	1,924,771	1,810,567	(114,205)	-5.9%	11,829,337	11,757,440	(71,898)	-0.6%
Wholesale Liquor Tax	523,216	578,212	54,995	10.5%	3,562,174	3,789,280	227,107	6.4%
Coal Conversion Tax	2,061,714	2,048,003	(13,712)	-0.7%	12,645,718	9,875,151	(2,770,567)	-21.9%
Mineral Leasing Fees	86,815	10,724,610	10,637,795	12253.5%	5,209,549	13,638,450	8,428,901	161.8%
Departmental Collections	2,095,184	1,918,223	(176,961)	-8.4%	13,130,899	12,120,827	(1,010,072)	-7.7%
Interest Income	2,136,863	876,875	(1,259,988)	-59.0%	12,022,743	5,381,723	(6,641,020)	-55.2%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	720	599	(121)	-16.8%	355,214	535,665	180,450	50.8%
Total Revenues and Transfers	93,384,200	87,778,248	(5,605,952)	-6.0%	686,843,771	894,201,916	207,358,145	30.2%

* Oil and gas production and extraction tax collections totaled \$28.9 million in December. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through December, oil tax collections totaling \$49.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

December 2009 revenues were \$87.8 million, \$2.5 million more than projected in the legislative forecast. Cumulative oil tax collections for the biennium exceeded the \$71.0 million general fund cap in November. Consequently, all additional oil tax collections during this biennium will be deposited in the permanent oil tax trust fund. Because the cap was reached sooner than anticipated in the legislative forecast, the comparison to the legislative forecast will include negative variances for oil taxes for each month through June 2010. Notable variances for the month are as follows:

- **Sales tax** collections for the month of December exceeded the legislative forecast by \$3.5 million. Biennium to date collections still lag the forecast by \$9.6 million, or 3.3 percent. However, sales tax collections for the first six months of this biennium are \$33.5 million, or 13.6 percent, higher than during the first six months of the 2007-09 biennium, a positive sign for the North Dakota economy.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.7 million for the month and \$8.1 million for the biennium to date. Although projected to decline significantly in the legislative forecast, motor vehicle sales have been bolstered by federal stimulus programs and the confidence of North Dakota consumers.
- **Individual income tax** collections exceeded the legislative forecast by \$4.5 million for the month. Biennium to date collections exceed the legislative forecast by 5.6 percent and exceed the 2007-09 biennium by 22.8 percent.
- **Corporate income tax** collections, which had been tracking very close to projections, fell short \$7.7 million for the month, reflecting a reduction in

estimated tax payments. Biennium to date collections are \$7.6 million short of the legislative forecast.

- **Oil and gas tax** collections for the month are \$28.9 million, \$18.4 million more than estimated in the legislative forecast. The legislative forecast assumed December oil tax collections of \$10.5 million based on November prices of \$47 per barrel and production of 205,000 barrels per day. November prices actually averaged \$67 per barrel and production reached a new record high of over 245,000 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.
- **Mineral leasing fees** were \$10.7 million for the month, even after deducting nearly \$1.4 million distributed to counties based on actual collections received during the July-September 2009 quarter. These revenues are received by the state as a result of leases for mineral exploration and mineral extraction on federal lands within the boundaries of the state. The Bureau of Land Management, which manages the federal lands generating this income, conducted a sale of oil and gas development leases in November 2009 and the total proceeds relating to North Dakota lands was over \$21.5 million. These revenues are shared between the BLM and the state. The state in turn splits the revenue equally between the state general fund and the counties where the lands are located by allocating to counties 50 percent of the moneys received by the state during the preceding quarter.

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